

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>HEART ACADEMY</b>	County <b>WAYNE</b>
Audit Date <b>6/30/05</b>	Opinion Date <b>10/20/05</b>	Date Accountant Report Submitted to State: <b>10/31/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

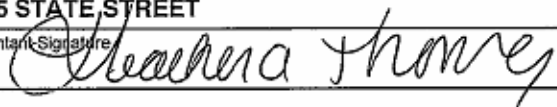
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name) <b>GARDNER, PROVENZANO, SCHAUMAN &amp; THOMAS, P.C.</b>			
Street Address <b>4855 STATE STREET</b>	City <b>SAGINAW</b>	State <b>MI</b>	ZIP <b>48603</b>
Accountant Signature 		Date <b>10/31/05</b>	

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# Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner  
Giacamo Provenzano  
James R. Schauman  
Heather A. Thomas

## INDEPENDENT AUDITOR'S REPORT

October 20, 2005

To the Board of Directors  
HEART Academy

We have audited the accompanying financial statements of the governmental activities of HEART Academy, as of and for the year ended June 30, 2005, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of HEART Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the HEART Academy as of June 30, 2005, and the respective changes in financial position for the year ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors  
HEART Academy  
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2005, on our consideration of HEART Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Gaudner, Proenzano, Schawmces & Thomas P. C*

Certified Public Accountants

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**HEART ACADEMY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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**Introduction**

This section of the annual financial report presents management's discussion and analysis of HEART Academy's financial results for the fiscal years ended June 30, 2005 and 2004. Please read this along with the financial statements that follow for a comprehensive understanding of the financial position of the Academy.

**Using This Report**

The annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the Academy as a whole (government-wide statements) and also in more detail (governmental fund statements) showing the year's activity by fund.

**Academy Wide Financial Statements**

The Academy Wide Financial Statements appear first and report all assets and liabilities using the accrual basis of accounting, similar to the accounting method used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The statement of activities covers all of the Academy's services including instruction and support services which are financed through Unrestricted State Aid and State and Federal grants. In addition, revenue less expense results in net assets, which can either, increase or decrease on an annual basis.

**Fund Financial Statements**

The Fund Financial Statements are reported on a modified accrual basis and are formatted to comply with the legal requirements of the Michigan Department of Education's Accounting Manual. The Academy uses funds to help control and manage money for specific purposes or to meet legal responsibilities for certain grants. Funds provide a detailed short-term view of the operations and services of the Academy, show how money flows through and out of funds, and the balances left at year-end. Reviewing the funds helps the reader consider whether the Academy is accountable for the resources taxpayers and others provide and gives insight into the Academy's overall financial health.

The relationship between governmental activities (Academy Wide Financial Statements) and governmental fund activities (Fund Financial Statements) will be reconciled later in the report.

**HEART ACADEMY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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**Agency and Trust Accounts**

The Academy acts as a trustee for various student activity funds. These net assets are excluded from the Academy's other financial statements since these assets cannot be used to finance any of the Academy's operations. The Academy's responsibility is to assure that the reported assets are used for their intended purpose.

**Condensed Financial Statements**

**Analysis of Overall Financial Position and Results of Operations**

The table below provides a summary of the Academy's net assets as of June 30, 2005 and 2004.

Assets	2004-2005	2003-2004
Current and other assets	\$ 674,505	\$ 631,377
Capital assets -		
Net of accumulated depreciation	245,414	334,783
Total assets	<u>919,919</u>	<u>966,160</u>
Liabilities		
Current liabilities	348,938	374,203
Long-term liabilities	391,666	457,509
Total liabilities	<u>740,604</u>	<u>831,712</u>
Net assets		
Invested in property and equipment -		
Net of related debt	\$ (179,585)	\$ (123,547)
Unrestricted	358,900	257,995
Total Net Assets	<u>\$ 179,315</u>	<u>\$ 134,448</u>

The Academy enrollment saw only a slight increase due to the enrollment cap that is mandated in the building lease agreement with the Archdiocese of Detroit. Total assets decreased from the previous year as a result of higher accumulated depreciation. Total liabilities decreased in large part to payment on both the St. John Health and Comerica loans from unrestricted funds. As a result of the above Total Net Assets increased.

**HEART ACADEMY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

**Analysis of Overall Financial Position and Results of Operations (cont.)**

The Academy's results of operations for 2005 and 2004 are reported below.

Revenue	2004-2005	2003-2004
Program revenue		
Grants and contributions	\$ 272,628	\$ 220,855
Charges for services	1,567	-
General revenue		
State foundation allowance	1,737,824	1,680,340
Other	5,842	6,269
Total revenue	<u>2,017,861</u>	<u>1,907,464</u>
Function/Program expenses		
Instruction	926,517	971,907
Support services	918,229	768,338
Food service	7,654	-
Interest on long-term debt	24,123	25,991
Depreciation (unallocated)	96,471	119,295
Total expenses	<u>1,972,994</u>	<u>1,885,531</u>
Increase (decrease) in Net Assets	<u>\$ 44,867</u>	<u>\$ 21,933</u>

Total Revenue increased from 2004 by \$110,397 as a result of the slight increase in enrollment, increased amount of grants and food sales associated with the addition of a lunch program in January. Total expense increased by \$87,463 as a direct result of increased instructional program expense and the addition of the food service program. These expenses were offset by the decreased amount of depreciation and interest on the long-term debt resulting in an overall increase of \$22,934 in Net Assets from 2004.

**Budget Highlights**

HEART Academy's budget was developed according to the Uniform Budget Act of the State of Michigan requirements. The Act requires that the original budget for the upcoming fiscal year be approved prior to July 1, the start of the fiscal year. As a matter of practice the HEART Academy Board of Directors amends its budget twice during the school year. During the fiscal year ended June 30, 2005, the Academy amended the budget on February 15, 2005 and June 21, 2005. A comparison showing the Academy's original budget, final amended budget and actual budget amounts for revenue and expenditures is provided below.



**HEART ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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**Budget Highlights (cont.)**

	<u>Original</u>	<u>Final</u>	<u>Variance</u>	<u>Actual</u>	<u>Variance</u>
Total Revenue	\$ 1,929,035	\$ 2,000,582	3.71%	\$ 2,013,540	0.65%
Total Expenditures	1,896,431	1,976,215	4.21%	1,974,305	-0.10%
Excess Revenue/Expenditures	32,604	24,367	-25.26%	39,235	61.02%

Changes to the original General Fund budget were as follows:

- When establishing the 2004/2005 revenue budget only estimates could be used, as there were a number of State and Federal budget factors that had not yet been determined. These factors included the uncertainty of per pupil funding, reductions or possible elimination of specific categoricals and grants. Final appropriations were higher than originally budgeted.
- Expenditures increased from the original to final budget to reflect the increased grant revenue that was received from both Federal and State sources. The Academy special education population increased requiring the teachers hours to increase from part-time to full-time meaning increased purchase service costs.
- An additional payment on the St. John Health note was made to reflect the payment terms. This was not originally budgeted.

**Final vs. Actual Budget**

**Revenue**

- The variance in the budget to actual revenue was due to the recognition of revenue that was deferred in the previous year and inadvertently left out of the final budget.
- Management believes that the budget to actual expenditure variances are not significant.

**Academy's Funds**

**General Fund**

The General Fund is the primary operating fund for the Academy. For fiscal year ending June 30, 2005, the fund increased by \$39,235.

**HEART ACADEMY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

**Academy's Funds (cont.)**

**Food Service Fund**

The Academy initiated a lunch program in January 2005. The purpose of the program was to provide lunch for those students who met Federal requirements for free or reduced lunch and others who did not bring lunch with them. Unfortunately students did not participate in the program to the level needed to break even therefore the program had a loss of \$3,333.

**Debt Service Fund**

The Academy's debt service fund is used to pay the principal and interest on existing loans from Comerica Bank and St. John Health. These loans were secured in the previous school year and were used to pay for building improvements to meet State building code requirements. In addition, a portion of the St. John Health loan was used to assist with General Fund expenditures.

<u>Long-Term Debt</u>	<u>Balance 2004-2005</u>	<u>Balance 2003-2004</u>
Renovation Loan - Comerica	\$ 424,999	\$ 458,333
St. John Note	32,500	97,500
Total	<u>\$ 457,499</u>	<u>\$ 555,833</u>
<u>Debt Reduction</u>	<u>2004-2005</u>	<u>2003-2004</u>
Renovation Loan - Comerica	\$ 33,334	\$ 33,334
St. John Note	65,000	32,500
Total	<u>\$ 98,334</u>	<u>\$ 65,834</u>

**Capital Assets**

As of June 30, 2005, the Academy has \$245,414 in capital assets including leasehold improvements, and furniture and equipment, less depreciation.

	<u>2004-2005</u>	<u>2003-2004</u>
Leasehold improvements	\$ 463,031	\$ 463,031
Equipment and furniture	57,697	50,595
Total Capital Assets	<u>520,728</u>	<u>513,626</u>
Less accumulated depreciation	<u>(275,314)</u>	<u>(178,843)</u>
Net Capital assets	<u>\$ 245,414</u>	<u>\$ 334,783</u>

This year's additions included furniture and computer equipment. Additional information regarding capital assets is located in the notes to the financial statements.

**HEART ACADEMY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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**Conditions Affecting Next Year's Budget**

The economy in the State of Michigan continues to be slowing. While the State is considering an increase in per pupil funding, at the time of the 2006 budget approval a final decision had not been approved. In addition the status of both 31a At-Risk and Vocational Education funding is not known. All of these factors create revenue risk and make budget planning and management difficult. If the per pupil funding does increase, there is an obligation in the lease agreement that will have the monthly rent increase by the same percentage as the increase in funding. Therefore part of the increased revenue will be offset by the added expense. Meeting increased expense requirements will require non-traditional thinking in relation to providing support for academic services and focused attention to fund raising initiatives.

**Requests for Information**

This report is designed to provide our stakeholders and taxpayers with a general overview of the Academy's finances. If you have questions about this report or need additional information, contact the Academy Business Office, Synergy Training Solutions, 24535 Jefferson, Saint Clair Shores, MI 48080.

## BASIC FINANCIAL STATEMENTS

HEART Academy  
Academy Wide  
Statement of Net Assets  
June 30, 2005

	Governmental Activities
ASSETS	
Cash	\$ 269,790
Receivables	346,276
Prepaid expenses	58,439
Capital assets less accumulated depreciation	245,414
Total Assets	<u>\$ 919,919</u>
LIABILITIES	
Current liabilities	
Accounts payable	\$ 16,773
Accrued liabilities	9,487
Due to management company	251,547
Deferred revenue	5,298
St John Health note, due within one year	32,500
Renovation Loan	33,333
Long-term liabilities	
Renovation Loan	391,666
Total Liabilities	<u>740,604</u>
NET ASSETS	
Invested in capital assets net of related debt	(179,585)
Unrestricted	358,900
Total Net Assets	<u>\$ 179,315</u>

The accompanying notes are an integral part of these financial statements.

HEART Academy  
Academy Wide  
Statement of Activities  
For the Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Instruction	\$ 926,517	\$ -	\$ 252,514	\$ (674,003)
Support services	918,229	-	17,360	(900,869)
Food service	7,654	1,567	2,754	(3,333)
Interest on long-term debt	24,123	-	-	(24,123)
Depreciation (unallocated)	96,471	-	-	(96,471)
Totals	<u>\$ 1,972,994</u>	<u>\$ 1,567</u>	<u>\$ 272,628</u>	<u>(1,698,799)</u>
General revenues:				
State aid - unrestricted				1,737,824
Other				<u>5,842</u>
Total General Revenues				<u>1,743,666</u>
Change in Net Assets				44,867
Net Assets - Beginning of Year				134,448
Net Assets - End of Year				<u>\$ 179,315</u>

The accompanying notes are an integral part of these financial statements.

Heart Academy  
Governmental Funds  
Balance Sheet  
June 30, 2005

Governmental  
Fund Type

	General Fund	Debt Service	Food Service	Totals (Memorandum Only)
<u>Assets</u>				
Cash	\$ 274,482	\$ -	\$ -	\$ 274,482
Due from other governmental units	344,903	-	1,359	346,262
Accounts receivable	14	-	-	14
Prepaid expense	58,439	-	-	58,439
Total Assets	<u>\$ 677,838</u>	<u>\$ -</u>	<u>\$ 1,359</u>	<u>\$ 679,197</u>
<u>Liabilities and Fund Balance</u>				
<u>Liabilities</u>				
Cash	\$ -	\$ -	\$ 4,692	\$ 4,692
Accounts payable	16,773	-	-	16,773
Accrued expenses	9,487	-	-	9,487
Due to management company	251,547	-	-	251,547
Deferred revenue	5,298	-	-	5,298
Total Liabilities	<u>283,105</u>	<u>-</u>	<u>4,692</u>	<u>287,797</u>
<u>Fund Balance</u>				
Unreserved and undesignated	394,733	-	(3,333)	391,400
Total Fund Balance	<u>394,733</u>	<u>-</u>	<u>(3,333)</u>	<u>391,400</u>
Total Liabilities and Fund Balance	<u>\$ 677,838</u>	<u>\$ -</u>	<u>\$ 1,359</u>	<u>\$ 679,197</u>

The accompanying notes are an integral part of these financial statements.

Heart Academy  
Reconciliation of Balance Sheet of Governmental Funds To Net Assets  
June 30, 2005

Total Fund Balances - Governmental Funds	\$ 391,400
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Amounts reported for governmental activities in the statement  
of net assets are different because:

Capital assets used in governmental activities are not financial  
resources and are not reported in the funds.

The cost of the capital assets is	520,728
Accumulated depreciation is	(275,314)

Long-term liabilities are not due and payable in the current period  
and are not reported in the funds:

St. John Health Note	(32,500)
Renovation Loan	(424,999)

Total Net Assets - Governmental Activities (Academy Wide)	<u>\$ 179,315</u>
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The accompanying notes are an integral part of these financial statements.



HEART Academy  
Governmental Funds  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
For the Year Ended June 30, 2005

Revenue	General	Debt Service	Food Service	Totals (Memorandum Only)
Local	\$ 14,705	\$ -	\$ 1,567	\$ 16,272
State	1,898,666	-	-	1,898,666
Federal	100,169	-	2,754	102,923
Total revenue	<u>2,013,540</u>	<u>-</u>	<u>4,321</u>	<u>2,017,861</u>
Expenditures				
Instruction	780,175	-	-	780,175
Added needs	146,342	-	-	146,342
Supporting services				
Pupil support	51,189			51,189
Improvement of instruction	17,110	-	-	17,110
General administration	303,174	-	-	303,174
School administration	165,440	-	-	165,440
Business services	7,354	-	-	7,354
Operations and maintenance	378,243	-	-	378,243
Central	2,821	-	-	2,821
Debt service	65,000	57,457	-	122,457
Food service	-	-	7,654	7,654
Total expenditures	<u>1,916,848</u>	<u>57,457</u>	<u>7,654</u>	<u>1,981,959</u>
Excess (Deficit) of Revenues over Expenditures	96,692	(57,457)	(3,333)	35,902
Other Financing Sources (Uses)				
Sources	-	57,457	-	57,457
Uses	(57,457)	-	-	(57,457)
Total Other Financing Sources (Uses)	<u>(57,457)</u>	<u>57,457</u>	<u>-</u>	<u>-</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other (Uses)	39,235	-	(3,333)	35,902
Fund Balance, Beginning	355,498	-	-	355,498
Fund Balance, Ending	<u>\$ 394,733</u>	<u>\$ -</u>	<u>\$ (3,333)</u>	<u>\$ 391,400</u>

The accompanying notes are an integral part of these financial statements.

HEART Academy  
Reconciliation of the Statement of Revenues, Expenditures and Changes in  
Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2005

Net Change in Fund Balances - Governmental Funds	\$ 35,902
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are capitalized and depreciated over their estimated useful lives.	
Depreciation expense	(96,471)
Capital outlay	7,102
Repayment of loan principal is an expenditure in the governmental funds, but not in the statement of activities	98,334
Change in Net Assets of Governmental Activities (Academy Wide)	<u>\$ 44,867</u>

The accompanying notes are an integral part of these financial statements.

HEART Academy  
Statement of Fiduciary Net Assets  
June 30, 2005

Assets	
Cash, student and parent organizations	\$ 10,278
Total Assets	<u>\$ 10,278</u>
Liabilities	
Due to student and parent organizations	\$ 10,278
Total Liabilities	<u>\$ 10,278</u>

The accompanying notes are an integral part of these financial statements.

## HEART ACADEMY NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1--Summary of Significant Accounting Policies

HEART Academy was formed as a Charter School Academy pursuant to the Michigan School Code of 1976, as amended by Act 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982.

In 1997, the Academy entered into a five-year contract with Saginaw Valley State University to charter a public school academy. The contract was extended through June 30, 2007. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. The Saginaw Valley State University Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Saginaw Valley State University Board of Trustees three percent of state aid as administrative fees. The total administrative fees incurred to the Saginaw Valley State University Board of Trustees for the year ended June 30, 2005, approximated \$52,152.

### Reporting Entity

The accompanying financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational and financial relationships that determine which of the governmental organizations are a part of the Academy's reporting entity, and which organizations are legally separate component units of the Academy. The Academy has no component units.

### B. Academy-Wide Statements

The statement of net assets and the statement of activities display information about the Academy as a whole. The usual purpose of these statements is to distinguish between activities that are governmental and those that are considered business-type activities. Currently, all activities of the Academy are considered to be governmental.

The Academy-wide statements are prepared using the economic resources measurement focus and the full accrual basis of accounting. This basis is different from the manner in which the governmental fund financial statements are prepared. Therefore reconciliation is included to identify the relationship between the Academy-wide statements and the statements for the governmental funds.

HEART ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

B. Academy-Wide Statements (continued)

The Academy-wide statement of activities presents a comparison between program expenses and program revenues; revenues that are not classified as direct program revenues are presented as general revenues. The comparison of program expenses and revenues identifies the extent to which each program is self-financed or draws resources from the Academy.

The Academy-wide approach is focused more on the sustainability of the Academy as an entity and the change in the Academy's net assets from the current year's activities.

C. Fund Financial Statements

The accounts of the Academy are organized on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations:

The following fund types are used by the Academy:

Governmental Funds

The governmental fund statements are prepared using the current resources measurement focus and the modified accrual basis of accounting. The fund approach is focused on the currently available resources and changes in the currently available resources of the Academy.

General Fund is the general operating fund of the Academy. It is used to account for all financial resources except those that are required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for a specified purpose. The Special Revenue Fund maintained by the Academy is the Food Service Fund. The Food Service Fund is intended to be self-supporting; however, this year there was a deficit in that fund. The General Fund has ample fund balance to cover this deficit.

Debt Service Funds are used to account for the accumulation of funds for the periodic payment of principal and interest on general long-term debt.

HEART ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

C. Fund Financial Statements (continued)

Fiduciary Funds

Fiduciary funds are used to report assets held in a trustee or agency capacity for others; therefore these funds are not available to support Academy programs.

The emphasis in fund financial statements is on the major funds. The Academy has opted to display information for all funds without regard to the criteria for determination of major funds. The Academy's fiduciary funds are presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party and cannot be used for activities or obligations of the government, these funds are not incorporated in the government-wide statements.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Accounting basis relates to the timing of the measurements made regardless of the measurement focus applied.

Full Accrual

The full accrual basis of accounting requires recognition of revenues when earned and expenses when incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. This method is used for the Academy-Wide statements.

Modified Accrual

The modified accrual basis recognizes revenues when they are measurable and available, available means collectible with the current period or within 60 days after year-end. Expenditures are still recognized when incurred; however, principal and interest on long-term debt is recognized when payment is due. This method is used for the Fund Level statements.

HEART ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

The most significant difference between the full accrual basis of accounting and the modified accrual basis of accounting is the way in which capital assets and long-term debt are recognized. The full accrual basis of accounting recognizes purchases of capital assets as an asset and long-term debt proceeds as a liability (similar to a for-profit business). The modified accrual basis of accounting recognizes the purchase of capital assets as expenditures and long-term debt proceeds as other revenue sources.

E. Financial Statement Amounts

Cash

Cash includes cash on hand and demand deposits.

Receivables

Receivables consist of all revenues earned at year-end but not yet received.

Prepaid

Prepaid amounts consist of payments for which the Academy will have a future benefit and will be used up at a date beyond the current year-end.

Capital Assets and Depreciation

Capital assets purchased or acquired with an original cost of \$1,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The Academy does not possess infrastructure type assets.

Depreciation on all assets is provided on the straight-line method over the following estimated useful lives:

Leasehold Improvements	5 years
Furniture and equipment	5-20 years

Leasehold improvements are depreciated over the life of the lease.

HEART ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

E. Financial Statement Amounts (continued)

Accounts Payable

Accounts payable consist of items from which the Academy benefited during the current fiscal year but has not yet paid.

Accrued Expenses

Accrued expenses consist of the amount due at year end to the Academy's oversight agency for oversight fees.

Due to Management Company

Due to Management Company consist of amounts on contracted employees and administrative fees that are due and payable for the current fiscal year.

Deferred Revenue

Deferred revenue represents amounts for which the Academy has received, but has not yet earned. Deferred revenue is usually caused by the receipt of grant program revenues in excess of expenses/expenditures related to the grant. The revenues are deferred until the proceeds have been fully expensed/expended.

Long-Term Liabilities

In the Academy wide financial statements, long-term debt is reported as a liability in the statement of net assets.

In the fund financial statements, governmental fund types recognize both interest and principal payments as expenditures during the period the payments were made.

Inter-fund Activity

Inter-fund activity is reported as transfers and are eliminated upon consolidation.



HEART ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2--Stewardship, Compliance, and Accountability

The Academy formally adopted a General Fund budget by activity for the year ended June 30, 2005. State law requires the Academy to have its budget in place before July 1. Unexpended appropriations lapse at year-end; encumbrances are not formally recorded.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. Budgeted amounts presented in the financial statements are amended by the Board of Directors. State law permits Academies to amend their budgets during the year. The budgetary comparison presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. Expenditures in excess of amounts budgeted are a violation of Michigan law.

The Academy's expenditure budget variances are illustrated in the required supplemental information.

NOTE 3--Deposits and Investments

The Academy is authorized, by the State of Michigan, to deposit its fund in banks, savings and loan associations, or credit unions having a principal office in Michigan.

The Academy is also authorized to invest in the following:

- a. Direct bonds and obligations of the U.S. or agency or instrumentality,
- b. CDs, savings accounts with banks, savings and loan associations, or credit unions which are insured with the applicable federal agency,
- c. Commercial paper – within three highest rate classifications by at least two rating services, maturing not later than 270 days,
- d. U.S. or agency repurchase agreements,
- e. Banker's acceptance of U.S. banks, and
- f. Mutual funds – investments which local unit can make directly.

As of year-end, the carrying amount of the Academy deposits was \$247,482 and the bank balance was \$314,298. Of the bank balance, \$100,000 was covered by federal depository insurance and \$214,298 was uninsured and un-collateralized. The Academy has not adopted an investment policy and does not hold any investments.

HEART ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4--Capital Assets and Accumulated Depreciation

Capital asset activity of the Academy was as follows:

	Balance July 1, 2004	Additions	Disposals	Balance June 30, 2005
Capital assets subject to deprecation				
Leasehold improvements	\$ 463,031	\$ -	\$ -	\$ 463,031
Equipment and furniture	50,595	7,102	-	57,697
Total Capital Assets	513,626	7,102	-	520,728
Accumulated depreciation				
Leasehold improvements	173,636	62,606	-	236,242
Equipment and furniture	5,207	33,865	-	39,072
Total Accumulated Depreciation	178,843	96,471	-	275,314
Total Net Capital Assets	\$ 334,783	\$ (89,369)	\$ -	\$ 245,414

Depreciation was not allocated by function as the Academy considers its capital assets to impact multiple activities and allocation is not practical.

NOTE 5--Long-Term Debt

The Academy's long-term debt includes a \$424,999 bank loan bearing an interest rate of 5.37%. Monthly payments are in the amount of \$2,778 of principal and an additional amount for interest as calculated by the bank. The loan is a General Fund obligation and will be paid from General Fund revenue. The Academy is allowed to transfer up to twenty percent of state aid each year to the Debt Service Fund to service the debt. For the year ended June 30, 2005, the transfer from the General Fund to the Debt Service Fund did not exceed twenty percent.

Long-term debt also includes a loan from the Academy's sponsor, St. John Health in the amount of \$32,500. The note is interest free and quarterly payments began late in the 2003-2004 school year.

A summary of long-term debt transactions follows:

	Balance June 30, 2004	Additions	Retirements	Balance June 30, 2005	Current Portion
Renovation loan	\$ 458,333	\$ -	\$ 33,334	\$ 424,999	\$ 33,333
St. John Health Note	97,500	-	65,000	32,500	32,500
	\$ 555,833	\$ -	\$ 98,334	\$ 457,499	\$ 65,833

# HEART ACADEMY

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 5--Long-Term Debt (continued)

Annual debt service requirements to maturity for the above governmental bonds and capital lease obligations are as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	33,333	22,460	55,793
2007	33,333	20,646	53,979
2008	33,333	18,859	52,192
2009	33,333	17,015	50,348
2010	33,333	15,201	48,534
2011-2016	199,998	53,156	253,154
2017-2018	58,336	3,192	61,528
	<u>\$ 424,999</u>	<u>\$ 150,529</u>	<u>\$ 575,528</u>

### NOTE 6--Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The risk of employee injuries and medical benefits for employees of the management company are covered by insurance held by the management company. The Academy has purchased commercial insurance for all other claims.

### NOTE 7--Related Party Transactions

The Academy has entered into a management agreement with Synergy Training Solutions, Inc., a for-profit corporation. The management company provides the Academy with all personnel, as well as all Academy management, executive administration, fiscal services, curriculum services and office of the principal.

The amount expensed for the personnel, related benefits, payroll taxes, and fiscal services was \$ 1,063,162. The amount due the management company at June 30, 2005 was \$251,547.

Management fees are calculated on 10% of all revenues received directly or indirectly, from the State School Aid Act of 1979, from federal aid received by the Academy, and local sources of revenue, but not less than \$245,000. The amount expensed for management fees for the year ended June 30, 2005 was \$245,000.

HEART ACADEMY  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8--Lease Commitments

The Academy entered into a lease agreement for facilities with an unrelated party under an operating lease for the period August 2003 through June 30, 2007. The amount expensed for lease payments totaled \$319,060. The current monthly rent shall increase each July 1 by the same percentage as the State unrestricted foundation grant allowance amount per pupil increases as calculated by the Michigan Department of Education. In addition, if utility usage increases by more than 5% of the projected budget amount, the Academy is to reimburse the lessor for 30% of the increased amount. This may affect the projected payments listed below. Estimated payments under this operating lease for the fiscal year ending June 30 are estimated as follows:

June 30,	Payments
2006	319,056
2007	319,056
	<u>\$ 638,112</u>

NOTE 9--Total Columns

Total columns on combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with accounting principles generally accepted in the United States of America; nor is such data comparable to consolidation.

NOTE 10--Inter-Fund Transfers

The makeup of inter-fund transfers is as follows:

Outgoing Transfer		Incoming Transfer	
General Fund	\$ 57,457	Debt service	\$ 57,457
Total	<u>\$ 57,457</u>	Total	<u>\$ 57,457</u>

The amount transferred from the General Fund to the Debt Service was to cover principal and interest payments.

REQUIRED  
SUPPLEMENTAL INFORMATION

HEART Academy  
Budgetary Comparison  
For the Year Ended June 30, 2005

	General Fund			Food service		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
Revenue						
Local	\$ 10,910	\$ 9,310	\$ 14,705	\$ 8,223	\$ 2,800	\$ 1,567
State	1,851,994	1,900,230	1,898,666	-	-	-
Federal	66,131	91,042	100,169	7,658	1,567	2,754
Other financing sources	-	-	-	-	-	-
Total Revenues	<u>1,929,035</u>	<u>2,000,582</u>	<u>2,013,540</u>	<u>15,881</u>	<u>4,367</u>	<u>4,321</u>
Expenditures						
Current:						
Instruction						
Basic programs	843,279	781,027	780,175	-	-	-
Added needs	62,500	143,027	146,342	-	-	-
Support Services						
Pupil services	55,443	51,189	51,189	-	-	-
Improvement of instruction	5,400	16,826	17,110	-	-	-
General administration	303,348	303,524	303,174	-	-	-
School administration	154,765	166,163	165,440	-	-	-
Business	17,000	7,354	7,354	-	-	-
Operation and maintenance	381,046	380,154	378,243	-	-	-
Central	15,250	3,551	67,821	-	-	-
Debt service	-	65,000	-	-	-	-
Food service				15,745	8,180	7,654
Outgoing transfers	58,400	58,400	57,457	-	-	-
Total Expenditures	<u>1,896,431</u>	<u>1,976,215</u>	<u>1,974,305</u>	<u>15,745</u>	<u>8,180</u>	<u>7,654</u>
Excess (Deficiency) of Revenues Over Expenditures	32,604	24,367	39,235	136	(3,813)	(3,333)
Fund Balance - Beginning of Year	355,498	355,498	355,498	-	-	-
Fund Balance - End of Year	<u>\$ 388,102</u>	<u>\$ 379,865</u>	<u>\$ 394,733</u>	<u>\$ 136</u>	<u>\$ (3,813)</u>	<u>\$ (3,333)</u>

## ADDITIONAL SUPPLEMENTAL INFORMATION



# Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner  
Giacamo Provenzano  
James R. Schauman  
Heather A. Thomas

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

October 20, 2005

To the Board of Directors  
HEART Academy

We have audited the financial statements of the governmental activities of HEART Academy, as of and for the year ended June 30, 2005, which collectively comprise HEART Academy's basic financial statements and have issued our report thereon dated October 20, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered HEART Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.



To the Board of Directors  
HEART Academy  
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HEART Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Board of Directors and is not intended and should not be used by anyone other than these specified parties.

*Sander, Provenzano, Schauman & Thomas, P.C.*

Certified Public Accountants